

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAYSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Grayson County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$450,453 from the beginning of the year, resulting in a cash surplus of \$2,190,974 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$9,700,000. Future collections of \$16,449,011 are needed over the next 23 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$407,353 as of June 30, 2002. Future principal and interest payments of \$445,407 are needed to meet these obligations.

Report Comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$118,316 To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Grayson County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Grayson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Grayson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002 of Grayson County, Kentucky, as of June 30, 2002, and its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2003 on our consideration of Grayson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Grayson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$118,316 To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 14, 2003

GRAYSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Gary Logsdon	County Judge/Executive
Damon Hornback	Magistrate
DePresto Gary	Magistrate
Sandra Farris	Magistrate
Doug Miller	Magistrate
Andy Logsdon	Magistrate
Curtis Wells	Magistrate

Other Elected Officials:

Tom Goff	County Attorney
Joey Stanton	Jailer
Margaret Woosley	County Clerk
Carroll Gibson	Circuit Court Clerk
Joe Brad Hudson	Sheriff
James Blanton	Property Valuation Administrator
Clay Vincent	Coroner

Appointed Personnel:

Rebecca Hayse	County Treasurer
Larry Holeman	Occupational Tax Collector
Sharon Vincent	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

GRAYSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 1,655,051</u>	<u>\$ 176,517</u>	<u>\$ 297,373</u>
Total Assets	<u>\$ 1,655,051</u>	<u>\$ 176,517</u>	<u>\$ 297,373</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years For:	\$	\$	\$
General Obligation Improvement Bonds - Principal			9,402,627
Capital Lease Obligations - Principal	<u>407,353</u>		
Total Other Resources	<u>\$ 407,353</u>	<u>\$ 0</u>	<u>\$ 9,402,627</u>
Total Assets and Other Resources	<u><u>\$ 2,062,404</u></u>	<u><u>\$ 176,517</u></u>	<u><u>\$ 9,700,000</u></u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

<u>Proprietary Fund Type</u>	<u>(Memorandum Only) Reporting Entity</u>
<u>Enterprise</u>	
<u>\$ 65,182</u>	<u>\$ 2,194,123</u>
<u>\$ 65,182</u>	<u>\$ 2,194,123</u>
\$	\$
	9,402,627
	<u>407,353</u>
<u>\$ 0</u>	<u>\$ 9,809,980</u>
<u>\$ 65,182</u>	<u>\$ 12,004,103</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
General Obligation Improvement			
Bonds - Principal (Note 4)	\$	\$	\$ 9,700,000
Capital Lease Obligations -			
Principal (Note 5)	407,353		
Payroll Liabilities	2,900		
Retirement Liabilities	249		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 410,502</u>	<u>\$ 0</u>	<u>\$ 9,700,000</u>
<u>Equity</u>			
Retained Earnings:			
Reserved	\$	\$	\$
Fund Balances:			
Reserved	125,000	176,517	
Unreserved	1,526,902		
	<u> </u>	<u> </u>	<u> </u>
Total Equity	<u>\$ 1,651,902</u>	<u>\$ 176,517</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 2,062,404</u></u>	<u><u>\$ 176,517</u></u>	<u><u>\$ 9,700,000</u></u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

<u>Proprietary</u>	<u>(Memorandum Only)</u>
<u>Fund Type</u>	<u>Reporting Entity</u>
 <u>Enterprise</u>	
\$	\$ 9,700,000
	407,353
	2,900
	249
<u>\$ 0</u>	<u>\$ 10,110,502</u>
 \$ 65,182	 \$ 65,182
	301,517
	1,526,902
<u>\$ 65,182</u>	<u>\$ 1,893,601</u>
<u>\$ 65,182</u>	<u>\$ 12,004,103</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

GRAYSON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 9,950,089	\$ 1,902,517	\$ 1,866,564	\$ 5,388,167
Jail Canteen Receipts	612,929			
Other Financing Sources:				
Transfers In	1,132,180	149,602		
Lease-Purchase Proceeds	57,000	22,000		
Total Cash Receipts	<u>\$ 11,752,198</u>	<u>\$ 2,074,119</u>	<u>\$ 1,866,564</u>	<u>\$ 5,388,167</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 8,273,411	\$ 1,809,380	\$ 1,708,534	\$ 4,330,081
Jail Canteen Expenditures	559,457			
Other Financing Uses:				
Building/Equipment Fund Expenditures	65,050			
Construction Fund Expenditures	643,749			
Transfers Out	1,132,180	45,000	149,602	548,809
Bonds:				
Interest Paid	506,745			
Kentucky Association of Counties Leasing Trust - Principal Payments	121,253	57,332	40,921	
Total Cash Disbursements	<u>\$ 11,301,845</u>	<u>\$ 1,911,712</u>	<u>\$ 1,899,057</u>	<u>\$ 4,878,890</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 450,353	\$ 162,407	\$ (32,493)	\$ 509,277
Cash Balance - July 1, 2001	<u>1,740,621</u>	<u>199,783</u>	<u>188,763</u>	<u>515,607</u>
Cash Balance - June 30, 2002	<u>\$ 2,190,974</u>	<u>\$ 362,190</u>	<u>\$ 156,270</u>	<u>\$ 1,024,884</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Types		Capital Projects Fund Types		Debt Service Fund Type	Enterprise Fund Type
Local Government Economic Assistance Fund	E-911 Fund	Building/Equipment Fund	Detention Facility Project - Construction Fund	Detention Facility Project - Bond Fund	Jail Canteen Fund
\$ 99,234	\$ 347,359	\$ 1,058	\$ 343,254	\$ 1,936	\$ 612,929
	45,000		67,698	869,880	
		35,000			
<u>\$ 99,234</u>	<u>\$ 392,359</u>	<u>\$ 36,058</u>	<u>\$ 410,952</u>	<u>\$ 871,816</u>	<u>\$ 612,929</u>
\$ 47,821	\$ 377,595	\$	\$	\$	\$ 559,457
		65,050			
			643,749		
			321,071	67,698	
				506,745	
	23,000				
<u>\$ 47,821</u>	<u>\$ 400,595</u>	<u>\$ 65,050</u>	<u>\$ 964,820</u>	<u>\$ 574,443</u>	<u>\$ 559,457</u>
\$ 51,413	\$ (8,236)	\$ (28,992)	\$ (553,868)	\$ 297,373	\$ 53,472
48,048	17,333	48,695	710,682		11,710
<u>\$ 99,461</u>	<u>\$ 9,097</u>	<u>\$ 19,703</u>	<u>\$ 156,814</u>	<u>\$ 297,373</u>	<u>\$ 65,182</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

GRAYSON COUNTY
STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 314,879
Other Receipts	24,370
Payments to Suppliers	(247,958)
Payments for Entertainment	(11,628)
Other Payments	<u>(55,081)</u>
Net Cash Provided by Operating Activities	<u>\$ 24,582</u>
Cash Flows From Noncapital Financing Activities:	
Cash Received on Inmate Accounts	\$ 18,277
Cash Refunded From Inmate Accounts	(19,011)
Cash From Inmate State Pay	33,554
Cash to Inmates From State Pay	(32,318)
Jail Inmate Account - Additions	221,849
Jail Inmate Account - Deductions	<u>(193,461)</u>
Net Cash Provided by Noncapital Financing Activities	<u>\$ 28,890</u>
Net Increase in Cash	\$ 53,472
Cash and Cash Equivalents - Beginning	<u>11,710</u>
Cash and Cash Equivalents - Ending	<u>\$ 65,182</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Grayson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit inclusion as part of the reporting entity.

Additional - Grayson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Grayson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Grayson County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Grayson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and E-911 Fund.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Detention Facility Project - Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Detention Facility Project - Construction Fund and the Building/Equipment Fund of the Fiscal Court are reported as Capital Projects Fund Types.

4) Proprietary Fund Type

The Proprietary Fund Type is an enterprise fund used to report an activity for which a fee is charged to external users for goods or services. The Grayson County Proprietary Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The commissary operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail commissary. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail commissary operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Grayson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Debt Service Fund Type because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash and cash equivalents includes amounts in bank accounts and certificates of deposit. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased by cash equivalent.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Grayson County Fiscal Court:

Grayson County Water Districts
 Grayson County Soil Conservation District
 Grayson County Library

Grayson County Extension Service
 Grayson County Hospital
 Grayson County Health Department

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$118,316 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 300,000
Collateralized with securities held by pledging depository institution in the county's name	1,460,535
Uncollateralized and uninsured	<u>118,316</u>
Total	<u>\$ 1,878,851</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt

On September 1, 1999, the County issued \$9,700,000 of General Obligation Improvement Bonds, Series 1999, at various interest rates (5.0% through 5.375%) for the purpose of construction of a Detention Center. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the County. Bond principal and interest requirements of the Detention Facility Project - Bond Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 501,120	\$ 225,000
2004	489,495	240,000
2005	477,245	250,000
2006	464,370	265,000
2007	450,745	280,000
2008-2012	2,024,922	1,615,000
2013-2017	1,551,544	2,090,000
2018-2022	920,452	2,720,000
2023-2025	166,491	2,015,000
Totals	<u>\$ 7,046,384</u>	<u>\$ 9,700,000</u>

Note 5. Capital Lease Agreements

A. The county has entered into the following capital lease agreements, which are paid from the General Fund.

1) Voting Machines

On December 18, 1997, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of voting machines in the amount of \$127,620 at 4.25% interest for a period of 10 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 3,725	\$ 12,669
2004	3,048	13,214
2005	2,341	13,783
2006	1,604	14,376
2007 - 2008	953	22,853
Totals	<u>\$ 11,671</u>	<u>\$ 76,895</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

A. The county has entered into the following capital lease agreements, which are paid from the General Fund. (Continued)

2) Courthouse Annex

On May 28, 1999, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding the construction of a courthouse annex in the amount of \$100,000 at 4.50% interest for a period of 5 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,558	\$ 20,728
2004	556	23,371
Totals	<u>\$ 2,114</u>	<u>\$ 44,099</u>

3) Sheriff's Vehicles

On July 24, 2000, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of Sheriff's vehicles in the amount of \$41,137 at 4.75% interest for a period of 5 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 901	\$ 8,177
2004	574	8,571
2005	223	8,985
2006	3	1,430
Totals	<u>\$ 1,701</u>	<u>\$ 27,163</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

- A. The county has entered into the following capital lease agreements, which are paid from the General Fund. (Continued)

4) Ambulance #1

On February 20, 2000, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of ambulances in the amount of \$80,860 at 3.75% interest for a period of 5 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,497	\$ 16,382
2004	835	17,129
2005	174	14,379
Totals	<u>\$ 2,506</u>	<u>\$ 47,890</u>

5) Ambulance #2

On July 20, 2001, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of an ambulance in the amount of \$35,000 at 3.70% interest for a period of 6 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,313	\$ 5,000
2004	1,078	5,000
2005	842	5,000
2006	607	5,000
2007	274	10,000
Totals	<u>\$ 4,114</u>	<u>\$ 30,000</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

- A. The county has entered into the following capital lease agreements, which are paid from the General Fund. (Continued)

6) Computers and Copy Machine

On March 20, 2002, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of computers and a copy machine in the amount of \$22,000 at 3.25% interest for a period of 4 years, with principal and interest paid monthly. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 702	\$ 5,292
2004	491	5,467
2005	273	5,647
2006	57	3,821
Totals	<u>\$ 1,523</u>	<u>\$ 20,227</u>

- B. The county has entered into the following capital lease agreements, which are paid from the Road and Bridge Fund.

1) Truck and Equipment

On May 28, 1999, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a truck and equipment in the amount of \$175,600 at 3.75% interest for a period of 6 years, with principal and interest paid monthly. In addition to the regular monthly payments, during the fiscal year ended June 30, 2002, the County paid \$30,690 from the Building/Equipment Fund. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 3,575	\$ 29,756
2004	2,208	30,323
Totals	<u>\$ 5,783</u>	<u>\$ 60,079</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

B. The county has entered into the following capital lease agreements, which are paid from the Road and Bridge Fund. (Continued)

2) Tractor/Mower

On May 16, 2001, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a tractor/mower in the amount of \$60,000 at 3.48% interest for a period of 5 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 2,054	\$ 10,000
2004	1,606	10,000
2005	1,064	15,000
2006	392	15,000
Totals	<u>\$ 5,116</u>	<u>\$ 50,000</u>

C. The county has entered into the following capital lease agreements, which are paid from the E-911 Fund.

1) Emergency 911 Equipment #1

On April 8, 1994, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of 911 equipment in the amount of \$210,000 at 5.369% interest for a period of 10 years, with interest paid monthly and principal paid annually. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 2,567	\$ 25,000
2004	959	26,000
Totals	<u>\$ 3,526</u>	<u>\$ 51,000</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

C. The county has entered into the following capital lease agreements, which are paid from the E-911 Fund. (Continued)

2) Emergency 911 Equipment #2

On August 3, 1999, the County entered into a lease-purchase agreement with Verizon for funding for 911 equipment in the amount of \$152,815 at 6.88% interest for a period of 7 years, with principal and interest paid monthly.

Note 6. State Grants

The County received from the Kentucky State Treasurer a grant during the fiscal year ending June 30, 2002 in the amount of \$500,000 to allow the expansion of public water service to unserved areas of Grayson County. Total expenditures for the fiscal year ending June 30, 2002 was \$375,000. The unexpended balance of the grant as of June 30, 2002 was \$125,000.

Note 7. Subsequent Event

Beginning in fiscal year ended June 30, 2003, the County Jailer assumed responsibility for paying and accounting for Jail Fund expenditures. The County Treasurer still receives, deposits and records Jail Fund revenue in the receipts ledger, and receives and reconciles monthly bank statements to receipts. The County Jailer receives invoices from vendors, computes payroll for jail personnel, presents claims to fiscal court for approval, prepares Jail Fund checks, maintains the Jail Fund appropriation ledger and warrant distribution register, and reconciles monthly bank statements to disbursements. Jail Fund checks are co-signed by the County Jailer, in addition to the County Judge/Executive and County Treasurer.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

GRAYSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 2,061,565	\$ 1,902,517	\$ (159,048)
Road and Bridge Fund	1,792,930	1,866,564	73,634
Jail Fund	5,085,179	5,388,167	302,988
Local Government Economic Assistance Fund	53,800	99,234	45,434
E-911 Fund	330,900	347,359	16,459
Totals	<u>\$ 9,324,374</u>	<u>\$ 9,603,841</u>	<u>\$ 279,467</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 9,324,374
Add: Budgeted Prior Year Surplus	805,000
Add: Budgeted Borrowed Money	100,000
Less: Other Financing Uses	<u>(671,763)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 9,557,611</u>

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SCHEDULE OF OPERATING REVENUE

GRAYSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Types	Capital Projects Fund Types	Debt Service Fund Types
Taxes	\$ 1,917,812	\$ 1,917,812	\$	\$
In Lieu Tax Payments	22,447	22,447		
Excess Fees	158,379	158,379		
Licenses and Permits	9,071	9,071		
Intergovernmental Revenues	6,939,780	6,939,780		
Charges for Services	108,808	108,808		
Miscellaneous Revenues	397,080	397,080		
Interest Earned	396,712	50,464	344,312	1,936
Total Operating Revenue	<u>\$ 9,950,089</u>	<u>\$ 9,603,841</u>	<u>\$ 344,312</u>	<u>\$ 1,936</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

GRAYSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 688,183	\$ 630,569	\$ 57,614
Protection to Persons and Property	4,541,655	4,009,547	532,108
General Health and Sanitation	96,749	90,271	6,478
Social Services	700	700	
Recreation and Culture	340,000	98,002	241,998
Roads	1,493,287	1,486,475	6,812
Airports	69,071		69,071
Debt Service	43,303	30,189	13,114
Capital Projects	500,000	375,000	125,000
Administration	1,784,663	1,552,658	232,005
 Total Operating Budget - General Fund Types	 \$ 9,557,611	 \$ 8,273,411	 \$ 1,284,200
 Other Financing Uses:			
Transfers to Detention Center			
Corporation Bond Fund -			
Interest	548,808	548,808	
Borrowed Money -			
Principal on Notes Payable	13,200		13,200
Capital Lease Agreements -			
Principal on Leases	109,755	121,253	(11,498)
 TOTAL BUDGET - GENERAL FUND TYPES	 \$ 10,229,374	 \$ 8,943,472	 \$ 1,285,902

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Members of the Grayson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Grayson County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Grayson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$118,316 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grayson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
February 14, 2003

COMMENT AND RECOMMENDATION

GRAYSON COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2002

NONCOMPLIANCES

The County Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral Of \$118,316 To Protect Deposits

On June 30, 2002, \$118,316 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Gary Logsdon's Response:

The amount in the payroll account was larger than expected at the end of the fiscal year so I failed to notice it being over the \$100,000.00 limit.

PRIOR YEAR FINDINGS

The following finding was reported in the prior year audit report. It has been corrected.

- The County Should Pay For All Purchases Within (30) Days

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

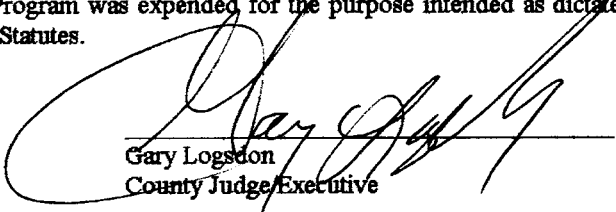
GRAYSON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

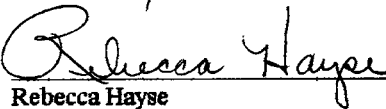
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GRAYSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Grayson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Gary Logsdon
County Judge/Executive



Rebecca Hayse
County Treasurer